

DOUGLAS COUNTY RURAL WATER DISTRICT NO. 1
Lawrence, Kansas

STATUTORY BASIS FINANCIAL STATEMENTS
For the year ended December 31, 2011

And

INDEPENDENT AUDITORS' REPORT

Long CPA, PA
A Professional Association
Certified Public Accountants

DOUGLAS COUNTY RURAL WATER DISTRICT NO. 1
Lawrence, Kansas

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To the Board of Directors
Douglas County Rural Water District No. 1
Lawrence, Kansas 66049

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

We have audited the financial statements of the individual funds of Douglas County Rural Water District No. 1, Lawrence, Kansas, as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

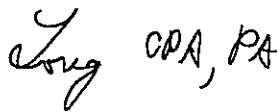
As described more fully in Note 1, the District has prepared these financial statements in conformity with the accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, except for the item described in the preceding paragraph, the financial statements, referred to above, present fairly, in all material respects, the cash and unencumbered cash of Douglas County Rural Water District No. 1, as of December 31, 2011 and the revenues it received and expenditures it paid for the year then ended, on the basis of accounting described in Note 1.

Board of Directors
Douglas County Rural Water District No. 1

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information presented on pages 12-18 is presented for purposes of additional analysis and is not a required part of the basic financial statements of Douglas County Rural Water District No. 1, Lawrence, Kansas. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, subject to the above qualifications, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The supplemental schedules on pages 12 and 13 differ from the information presented in the basic financial statements, which are presented on a basis of accounting which demonstrates compliance with the cash basis and budget laws of Kansas.

A handwritten signature in black ink, appearing to read "Long CPA, PA". The signature is stylized and cursive.

Long CPA, PA
A Professional Association
Certified Public Accountant

March 17, 2012

The notes to the financial statements are an integral part of this statement.

DOUGLAS COUNTY RURAL WATER DISTRICT NO. 1
WATER UTILITY FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the year ended December 31, 2011

	<u>Actual</u>
CASH RECEIPTS	
Charges for services	\$ 364,353
Reinvested income in fund value	4,399
Cash on sale of assets	3,000
Interest income	114
Miscellaneous income	<u>24,713</u>
 Total Cash Receipts	 <u>396,579</u>
 EXPENDITURES	
Production	342,090
Capital outlay	73,455
Operating transfers	0
Adjustment for qualifying budget credits	<u>0</u>
 Total Expenditures	 <u>415,545</u>
 Receipts Over (Under) Expenditures	 (18,966)
Unencumbered Cash, Beginning	732,151
Prior Year Cancelled Encumbrances	<u>0</u>
 Unencumbered Cash, Ending	 \$ <u><u>713,185</u></u>

The notes to the financial statements are an integral part of this statement.

DOUGLAS COUNTY RURAL WATER DISTRICT NO.1

Lawrence, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies

Financial Reporting Entity

The Douglas County Rural Water District No. 1 (RWD No. 1) (the District) is a water utility that provides service to 384 customers as of December 31, 2011. The district was organized as a quasi-municipal corporation to acquire water and water rights and to build and acquire pipelines for the purpose of furnishing water to owners and occupants of land located within the District.

The following types of funds comprise the financial activities of the District for the year of 2011:

Proprietary Funds

Enterprise Funds - To account for operations that are financed and operated in a manner similar to private business enterprises – where the stated intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges – or where periodic determination of revenues earned, expenses incurred, and/or net income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Statutory Basis of Accounting

The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

The municipality has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the municipality to use the statutory basis of accounting.

DOUGLAS COUNTY RURAL WATER DISTRICT NO.1

Lawrence, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Departure from Generally Accepted Accounting Principles (GAAP)

The basis of accounting described above results in a financial statement presentation which shows cash receipts, cash disbursement, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expenses, liabilities such as deferred revenues and matured principle and interest payable, and reservations of fund balance are not presented.

Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year-end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with United States generally accepted accounting principles. Capital assets that account for the land, buildings, and equipment owned by the District are not presented in the financial statements.

Inventories and Prepaid Expenses

Inventories and prepaid expenses which benefit future periods are recorded as expenditures.

Use of Estimates

The preparation of modified cash basis financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows and summary of cash balances, cash and cash equivalents are defined as demand deposits and certificates of deposit at banks with maturities of three months or less.

Memberships

The District adds the cost of purchasing a benefit unit directly to district equity rather than recognizing those sums as revenues.

DOUGLAS COUNTY RURAL WATER DISTRICT NO.1

Lawrence, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment are recorded at cost. Improvements and betterments to existing property and equipment are capitalized. Expenditures for maintenance and repairs which do not extend the life of the applicable assets are charged to expense as incurred. Depreciation is computed using straight line and declining balance methods over the estimated useful life of the asset. Depreciation expense totaled \$ 34,299 for the year ended December 31, 2011.

Income Taxes

In prior years, it has been held that the District is exempt from income taxes under Section 115 of the Internal Revenue Code both because it is a public utility under Section 247 and because it is a political subdivision of the State of Kansas (K.S.A. 82a-601,et.seq.).

In a 1992 published Internal Revenue Service opinion, it was determined that Kansa rural water districts do not qualify as political subdivisions for the purposes of the exemption from payment of FUTA. No claim has been asserted against the District for this tax, nor is the amount of any such claim determinable at this time. Kansas law has been changed, effective March 20, 1992, the result of which causes rural water districts to again qualify as a political subdivision for the purpose of the exemption for payment of FUTA. We are unable to determine at this time whether or not a claim will ultimately be asserted against the District, the likelihood that it would ultimately be held liable for that claim, or the ultimate amount of that claim, if assessed. Consequently, no additional liabilities relating to a possible claim have been recognized.

NOTE 2 – Deposits and Investments

Deposits

K.S.A. 9-1401 establishes the depositories which may be used by the district. The statute requires banks eligible to hold the district's funds have a main or branch bank in the county in which the district is located and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The district has no other policies that would further limit interest rate risk.

DOUGLAS COUNTY RURAL WATER DISTRICT NO.1

Lawrence, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – Deposits and Investments (Continued)

Deposits

K.S.A. 12-1675 limits the district's investments of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The district has no investment policy that would further limit its investment choices.

Concentration of Credit Risk

State statutes place no limit on the amount the district may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and K.S.A. 9-1405.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the district's deposits may not be returned to it. State statutes require the district's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%.

At December 31, 2011, the District's carrying amount of deposits, including certificates of deposit, was \$ 713,185 and the bank balance was \$ 715,166 of which \$ 106,041 was covered by FDIC insurance. The balance of \$ 609,125 held in an investment account of a commercial institution is not secured by FDIC insurance.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

DOUGLAS COUNTY RURAL WATER DISTRICT NO.1

Lawrence, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 3 – Risk Management

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the county carries commercial insurance. There have been no significant reductions in coverage from prior years and settlements have not exceeded coverage in the past three years.

NOTE 4 – Compliance with Kansas Statutes

We noted no violations of Kansas statutes during the period under examination.

NOTE 5 – Water Contract

In 1977, the District entered into a 40-year contract for treatment of water from the City of Lawrence, Kansas. The District purchases water from the City of Lawrence at the rate of \$ 3.83 per thousand gallons.

NOTE 6 – Compensated Absences

The District pays vacation time up to 12 days a year for employees who have worked less than 5 years. For employees who have worked more than 5 years but less than 10 years, the District will pay for 15 days of vacation. For employees who have worked more than 10 years, the District will pay for 18 days of vacation. There is no automatic accumulation of vacation days from one year to the next. Those days not taken by the end of the year are paid prior to January 1 of the following year. The Board of Directors may, at its discretion, allow an employee to carry up to 5 days of vacation over to the next calendar year. The district allows employees sick leave at the rate of one day per month following the commencement of their employment. Sick leave with pay may be accumulated to a maximum of 90 days. Upon separation from the district the employee is not paid for unused accumulated sick leave. No accrued vacation or sick leave is included in these financial statements due to the immateriality of the amount.

NOTE 7 – Concentration of Suppliers

The District acquires 100% of its water supply from the City of Lawrence. There are no other suppliers of water available for the District.

DOUGLAS COUNTY RURAL WATER DISTRICT NO.1

Lawrence, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 8 – Concentration of Credit Risk

The District currently has all of its certificates of deposit and demand deposits with three financial institutions in Lawrence, Kansas banks. This is a concentration of credit risk related to deposits.

NOTE 9 – Employment Benefits

The District provides medical insurance if the employee so desires. Health insurance for dependents is not paid by the District.

The District contributes to a retirement account established for each employee. The amount contributed and the basis on which contributions are made are determined annually by the Board and shall be in compliance with all federal and state laws.

NOTE 10 – Other Post Employment Benefits

As provided by K.S.A. 12-5040, the local government allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the local government is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in these statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the government makes health care available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the government under this program.

NOTE 11 – Subsequent Events

Subsequent events for management's review have been evaluated through March 17, 2012. The date in the prior sentence is the date the financial statements were available to be issued.

DOUGLAS COUNTY RURAL WATER DISTRICT NO. 1**BALANCE SHEETS**
As of December 31, 2011

	ASSETS	
	2011	2010
Current Assets		
Cash and cash equivalents	\$ 71,306	\$ 25,771
Certificates of deposit	641,879	706,380
Inventory	20,729	16,579
Water rights	698	598
Total current assets	734,612	749,328
Property, plant, and equipment, net	117,972	78,817
Total Assets	\$ 852,584	\$ 828,145

LIABILITIES AND DISTRICT EQUITY

Current Liabilities		
Due to Patrons	\$ 688	\$ 367
Payroll and sales taxes payable	986	1,823
Total current liabilities	1,674	2,190
District Equity	850,910	825,955
Total liabilities and member's equity	\$ 852,584	\$ 828,145

The notes to the financial statements are an integral part of this statement.

DOUGLAS COUNTY RURAL WATER DISTRICT NO. 1

STATEMENT OF OPERATIONS

For the year ended December 31, 2011

	<u>2011</u>
Revenues	
Water sales	\$ <u>364,353</u>
Expenses	
Water purchased	189,531
Salaries and wages	27,465
Subcontractors and fees	66,848
Repairs and maintenance	3,133
Utilities and telephone	8,207
Insurance and bonds	10,774
Office expenses	9,167
Professional and other services	974
Payroll taxes	2,101
Dues and fees	348
Depreciation	34,299
Mileage and auto expense	989
Board expenses	1,551
Outside services	6,791
Retirement contribution	6,900
License and fees	30
Bank fees	1,073
Returned checks	<u>1,443</u>
	<u>371,624</u>
Net income from operations	<u>(7,271)</u>
Other Income (Expense)	
Miscellaneous income	24,713
Interest income	114
Increase in fund value	4,399
Gain on the sale of assets	<u>3,000</u>
Other Income/Expense, Net	<u>32,226</u>
Net Income	\$ <u><u>24,955</u></u>

The notes to the financial statements are an integral part of this statement.

DOUGLAS COUNTY RURAL WATER DISTRICT NO. 1**STATEMENT OF CHANGES IN DISTRICT EQUITY**

For the year ended December 31, 2011

	<u>2011</u>
District Equity - Beginning of year	\$ 825,955
Memberships	
Net Income	<u>24,955</u>
District Equity - End of year	<u><u>\$ 850,910</u></u>

The notes to the financial statements are an integral part of this statement.

DOUGLAS COUNTY RURAL WATER DISTRICT NO. 1

STATEMENT OF CASH FLOWS
For the year ended December 31, 2011

	<u>2011</u>
Cash Flows from Operating Activities	
Net Income	\$ 24,955
Adjustments to Reconcile Net Income to Net Cash	
Provided by (Used in) Operating Activities	
Depreciation and amortization	34,299
(Increase) decrease in Inventory	(4,150)
(Increase) decrease in Water rights	(100)
Increase (decrease) in Due to Patrons	321
Increase (decrease) in taxes payable	<u>(837)</u>
Net Cash Provided By Operating Activities	<u>54,488</u>
Cash Flows from Investing Activities	
Proceeds from sale of benefit units	-
Proceeds from certificates of deposit	64,501
Purchase of assets	<u>(73,454)</u>
Net Cash Provided By Investing Activities	<u>(8,953)</u>
Net Increase (Decrease) In Cash	45,535
Cash - Beginning of Period	<u>25,771</u>
Cash - End of Period	<u>\$ 71,306</u>

The notes to the financial statements are an integral part of this statement.

DOUGLAS COUNTY RURAL WATER DISTRICT NO. 1

SUMMARY OF INSURANCE COVERAGE AND FIDELITY BONDS

As of December 31, 2011

Property Covered	Coverage	Expires
Commercial property:	90% Coinsurance	12/7/2012
Building	104,736	
Property in the open	134,277	
Underground pumps	160,070	
Personal property in office	30,000	
Commercial General Liability:		12/7/2012
Aggregate Limit -		
products/completed operations	1,000,000	
Personal and advertising injury	500,000	
Damage to premisis rented	100,000	
Medical expense (per person)	5,000	
Inland marine		12/7/2012
Miscellaneous inventory	101,860	
Commercial Auto:		12/7/2012
Liability insurance (per loss)	500,000	
Workmen's compensation:		12/7/2012
Bodily injury by accident	500,000	
Bodily injury by disease (per employee)	500,000	
Bodily injury by disease (policy limit)	500,000	
Public Employee Dishonesty:		12/7/2012
Per loss	100,000	
Directors' and Officers' Liability:	1,000,000	12/7/2012

The notes to the financial statements are an integral part of this statement.

DOUGLAS COUNTY RURAL WATER DISTRICT NO. 1**BOARD MEMBERS AND OFFICERS**

As of December 31, 2011

		Term Expires
Chairman:	Tom Sloan 772 Highway 40 Lawrence, KS 66049	2013
Vice-Chairman:	Bob Riley 695 N 1610 Road Lawrence, KS 66049	2013
Secretary/Treasurer:	Mel Wren 835 N 1710 Road Lawrence, KS 66049	2012
Board Member:	Dale Richling 839 N 1710 Road Lawrence, KS 66049	2012
Board Member:	John Bialek 692 N 1483 Road Lawrence, KS 66049	2013
Board Member:	Curtis Morgan 754 N 1750 Road Lawrence, KS 66049	2012

The notes to the financial statements are an integral part of this statement.